

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 IO-13 NSC-05 SS-15

STR-05 CEA-01 PA-01 PRS-01 /096 W

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R 090811Z DEC 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9002

INFO AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, EAID, RL, RP

SUBJECT: ERRONEOUS REPORT ON PHILIPPINE BORROWING PICTURE

REF: (A) TOKYO 18587, (B) TOKYO 18590

1. SUMMARY. SECRETARY OF FINANCE VIRATA IS CONCERNED THAT ERRONEOUS NEWSPAPER REPORT FROM TOKYO CASTS DOUBT ON PHILIPPINE CREDITWORTHINESS. ARTICLE IN DECEMBER 5 ASIAN WALL STREET JOURNAL REPORTS THAT RECENT MEETINGS OF PHILIPPINE CONSULTATIVE GROUP RECOMMENDED DRASTIC REDUCTION IN FOREIGN BORROWING. DECEMBER 7 ARTICLE IN SAME PAPER REPORTS DENIAL BY WORLD BANK CHAIRMAN OF CG MEETING, BUT SEEDS OF DOUBT MAY LINGER. FACT IS THAT CG MEETING FORESAW CONTINUATION OF RECENT BORROWING TRENDS. EMBASSY HAS NOT RECEIVED INQUIRIES FROM MANILA OFFICES OF COMMERCIAL BANKS. END SUMMARY.

2. DURING COURTESY CALL BY AMBASSADOR ON DECEMBER 7, SECRETARY OF FINANCE CESAR VIRATA EXPRESSED CONCERN OVER ERRONEOUS REPORT, WHICH HE SAID WAS CARRIED IN ASIAN WALL STREET JOURNAL (AWSJ) AND NEW YORK TIMES, TO THE EFFECT THAT THE LIMITED OFFICIAL USE

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RECENT MEETING OF THE CONSULTATIVE GROUP (CG) IN TOKYO HAD RECOMMENDED THAT THE PHILIPPINES, BECAUSE OF HEAVY EXISTING EXTERNAL DEBT OBLIGATIONS, REDUCE ITS FOREIGN BORROWING BY ONE HALF. VIRATA WAS DISTURBED AT THE REPORT AND THE POSSIBLE EFFECT IT MIGHT HAVE ON ATTITUDES OF PHILIPPINE CREDITORS.

3. EMBASSY IS NOT AWARE OF ANY COVERAGE IN NEW YORK TIMES, BUT DECEMBER 5 ISSUE OF AWSJ DID CARRY ARTICLE BY EDUARDO LACHICO FROM TOKYO, CLAIMING THAT CONSULTATIVE GROUP HAD RECOMMENDED THE REDUCTION IN BORROWING BY ROUGHLY HALF. DECEMBER 7 ISSUE OF AWSJ CARRIES ARTICLE REFLECTING INTERVIEW IN MANILA WITH WORLD BANK REGIONAL VICE PRESIDENT SHAHID HASAIN, WHO WAS CHAIRMAN OF THE TOKYO CG MEETING. HASAIN REPORTEDLY DENIED THAT THE MEETING HAD RECOMMENDED A CURB ON BORROWING OR DISCUSSED DEBT CEILINGS, AND THAT "WE FEEL THE PHILIPPINES IS CREDITWORTHY." DECEMBER 8 ISSUE OF BUSINESS DAY REPORTS DENIAL BY VIRATA AND HIS ATTEMPT TO SET THE RECORD STRAIGHT.

4. DURING LATER MEETING WITH MIKE MALLOY, MANILA-BASED CORRESPONDENT OF AWSJ, ECON/COMMERCIAL COUNSELOR EMPHASIZED THAT HASAIN VERSION IS ACCURATE, AND THAT CG MEETING DID NOT RECOMMEND REDUCTION IN BORROWING LEVELS. MALLOY SPECULATED THAT TOKYO CORRESPONDENT LACHICO MAY HAVE BEEN LED ASTRAY BY LANGUAGE OF PRESS RELEASE (REF A), WHICH STATES THAT, "... IT IS ESTIMATED THAT GROSS DISBURSEMENTS FROM MEDIUM AND LONG TERM LOANS WILL NEED TO AMOUNT TO ABOUT \$1.4 BILLION DURING THE NEXT TWO YEARS." THE INTENDED MEANING, OF COURSE, IS THAT \$1.4 BILLION WILL BE NEEDED ANNUALLY. LACHICO ARTICLE ALSO INDICATED HE CONFUSED 1978 ODA REQUIREMENT OF \$750-800 MILLION WITH OVERALL BORROWING LEVEL, WHICH WOULD INCLUDE COMMERCIAL BORROWING (AN ADDITIONAL \$800-850 MILLION IN LIMITED OFFICIAL USE

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MEDIUM AND LONG TERM IN 1977).

5. AS REFLECTED IN REPORTING TELEGRAM ON THE CG MEETING (REF B), THERE WAS IN FACT CONSIDERABLE DISCUSSION OF THE PHILIPPINE BALANCE OF PAYMENTS AND DEBT SITUATION. BUT WHILE PRUDENCE AND GOOD MANAGEMENT IS CLEARLY INDICATED, THERE WAS NO SUGGESTION THAT BORROWING LEVELS BE RADICALLY REDUCED, AND THE \$1.4 BILLION ANNUAL REQUIREMENT MENTIONED IN THE PRESS RELEASE WOULD BE A CONTINUATION OF RECENT TRENDS. WE EXPECT THAT AN AGREEMENT ON 1978 CEILINGS FOR NEW BORROWINGS OF ONE TO 15 YEARS MATURITY WILL SOON BE WORKED OUT WITH THE IMF, AND THAT THIS AGREEMENT WILL FOLLOW THE PATTERN OF THE 1977 AGREEMENT, WHICH PROVIDED FOR \$860 MILLION OF NEW BORROWING IN THIS CATEGORY.

6. NO BANKS WITH MANILA OFFICES HAVE RAISED THIS MATTER WITH THE EMBASSY. MANY HAVE SUBSTANTIAL PHILIPPINE EXPOSURE, HOWEVER, AND BE EXPECTED TO EXAMINE CLOSELY ANY CLUES POINTING TOWARD A SHAKY PHILIPPINE CREDIT STANDING. WE WILL TAKE OPPORTUNITIES AS THEY ARISE TO CALM ANY JITTERS WHICH MAY HAVE BEEN RAISED BY REPORTING ON THE TOKYO MEETING. EMBASSY RECOMMENDS THAT THE DEPARTMENT

BE SIMILARLY PREPARED TO EXPLAIN THE SITUATION TO  
INTERESTED CREDITORS.  
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